Business Plan

Fiscal Year Ending March 31, 2015

BCFerries

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INTRODUCTION AND PURPOSE

This plan describes the strategies and initiatives we will undertake in fiscal 2015 as we pursue our vision, mission, and business goals.

RATE REGULATION

We are regulated by the British Columbia Ferries Commissioner (the Commissioner) to ensure, among other things, that our tariffs are fair and reasonable. Under the terms of the *Coastal Ferry Act*, the tariffs we charge our customers over a performance term are subject to price caps set by the Commissioner. The Commissioner may, under certain circumstances, allow increases in price caps over the set levels. Certain decisions and orders of the Commissioner may give rise to assets or liabilities. Regulatory assets generally represent incurred costs that are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions or fuel rebates.

International Financial Reporting Standards (IFRS) does not have a standard for rate-regulated activities and, therefore, does not permit us to report in our financial statements, the assets and liabilities that result from the regulated price cap setting process, such as our deferred fuel cost accounts. Rather than being charged to regulatory asset accounts on our Statements of Financial Position, fuel surcharges collected or rebates granted are included in revenue, and increases or decreases in fuel prices from those approved in price caps are included in operating expenses. These items are treated as assets and liabilities for regulatory purposes.

We continually assess whether our regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. We believe the regulatory assets at March 31, 2014 are probable of future recovery and that the obligations as represented by the regulatory liabilities will be settled through future tariff reductions.

Although IFRS does not permit us to report regulatory assets and liabilities in our financial statements, they are recognized for the purposes of rate regulation and performance measurement therefore, the following includes the impact of our regulatory assets and liabilities.

OUR VISION, MISSION, AND VALUES

Our Vision

To provide a continuously improving west coast travel experience that consistently exceeds customer expectations and reflects the innovation and pride of our employees.

Our Mission

To provide safe, reliable and efficient marine transportation services which consistently exceed the expectations of our customers, employees and communities, while creating enterprise value.

Our Values

Safety
Ensure that the safety and security of our customers and staff is a primary concern in all aspects of doing business.

Quality
Be motivated by customer expectations in providing quality facilities and services.

Integrity
Be accountable for all our actions and ensure we demonstrate integrity in our business relations, utilization of resources, treatment of our customers and staff, and in the general conduct of our business.

Partnerships
Work openly and constructively with our various business and community stakeholders to exceed the expectations of our customers and advance each other's interests.

Environment
Ensure that environmental standards are maintained.

Employees
Always deal from a position of honesty, integrity and mutual respect, and ensure that our employees develop to their full potential.

DEFINITION OF SUCCESS

Our definition of success is to provide to our customers integrated marine transportation services that are safe, reliable and continuously improving, while delivering best value for money and operating in a manner that preserves our financial integrity.

KEY BUSINESS GOALS

The safety of our passengers and our employees continues to be the primary objective of the company. We are very proud of the results this focus has provided and are committed to continually challenging ourselves to be better.

Including safety, the company focuses on five key business goals:

Safety
To protect our customers and employees by continuously improving the safety of our operations, inclusive of vessels, terminals and facilities.

Operational Reliability
To continuously improve the operational reliability of vessels, terminals and facilities.

Continuous Improvement
To be better at everything we do.

Value for Money
To continuously improve value to our customers at every point along the customer experience chain.

Financial Integrity
To achieve key financial targets, ensuring that sufficient capital and retained earnings are available to revitalize our fleet, facilities and infrastructure.

These five goals are essential to our success. They provide focus as we plan our year ahead and move forward in the upcoming years to replace or life-extend 11 of our aged vessels, seek efficiencies through terminal upgrades, and offer services and choices that our customers value.

MEASURING SUCCESS

In support of our vision, mission, and key business goals, the Board of Directors and management of BC Ferries have implemented comprehensive long-term performance measures to monitor the progress of the business and its ongoing commitment to continuous improvement.

The safety of our passengers and employees is our primary focus:

1. Employee Safety (employee injury frequency rate X severity rate divided by 1000)
2. Passenger Safety (number of passenger injuries per one million passengers)

	Fiscal 2012		Fiscal 2013		Fiscal 2014		Fiscal 2015
	Actual	Target	Actual	Target	Actual	Target	Target
Employee Safety	1.34[1]	1.31	1.04	1.22	0.67	0.90	0.55
Passenger Safety	15.31	18.11	13.28	15.45	13.28	13.49	10.73

Other important areas of focus include:

3. Reliability (actual round trips divided by scheduled round trips, less weather, medical or rescue related cancellations)
4. Customer Satisfaction Rating
5. Regulatory Earnings before interest, taxes, depreciation and amortization (EBITDA, in $ millions).
6. Regulatory Net Earnings (in $ millions).

	Fiscal 2012		Fiscal 2013		Fiscal 2014		Fiscal 2015
	Actual	Target	Actual	Target	Actual	Target	Target
Reliability Index	99.76%	99.4-99.59%	99.75%	99.5-99.69%	99.71%	99.5-99.69%	99.55 – 99.74%
Customer Satisfaction	88%	83%	88%	88%	87%	88%	88%
Regulatory EBITDA[2]	$190.2	$189.1	$221.7	$206.4	$232.3	$218.0	$221.5
Regulatory Net (Loss) Earnings[2]	$(12.0)	$(14.9)	$15.2	$(2.7)	$25.5	$8.3	$11.8

1 Restated

2 See Rate Regulation section above for further discussion.

SAFETY

To protect our customers and employees by continuously improving the safety of our operations, inclusive of vessels, terminals, and facilities.

SAFETY – STRATEGIES AND TACTICS

At BC Ferries, the safety of our customers and employees has been, and will continue to be, our top priority.

The company continues to improve the safety of both passengers and employees. In the past year, there has been a 22% reduction in employee time loss injuries and a 19% reduction in employee days lost due to injuries.

Since the introduction of our SailSafe program in 2007, our commitment to safety has resulted in:

- a 58% reduction in the number of employee days lost due to injuries; and
- a 53% reduction in the number of employee time loss injuries.

In addition, this commitment has resulted in close to a 40% reduction in the number of passenger injuries in the past four years.

With the successful completion of Phase III of the SailSafe project, our safety program will evolve in 2015 to encompass a broader range of activities aiming to further reduce employee and passenger injuries.

- **Communications**: develop and implement a comprehensive safety communications plan to reinforce positive behaviour, improve employee access to information, ensure information is relevant and interesting, and include all aspects of a safety culture.
- **Team Building**: develop and implement plans to ensure team resilience at all worksites.
- **Health and Wellness**: develop and implement plans to increase individual resilience.
- **Leadership in Safety**: develop strategies and capacity to anticipate abnormal and potentially critical scenarios.

In addition, we will continue to:

- foster a world class safety culture through employee involvement, training, education and communication including such activities as "Town Hall" employee meetings, audits, investigations, safety newsletters, and employee-supervisor education partnering;
- share lessons learned from operations across the company;
- actively manage risk in all areas of the company using operational risk management, training and tracking of identified issues;
- carry out ongoing readiness training exercises and drills to ensure we are operationally ready for any abnormal or emergency event;
- maintain high standards for food safety throughout the fleet; and
- meet or exceed all safety regulations.

OPERATIONAL RELIABILITY

To continuously improve the operational reliability of vessels, terminals and facilities.

OPERATIONAL RELIABILITY – STRATEGIES AND TACTICS

Since 2003, we have invested more than $2 billion in our vessels, terminals and information technology. This is in addition to our ongoing maintenance programs. These infrastructure investments are essential in order to provide safe and reliable service that our passengers and communities can depend on.

During fiscal 2014, we completed major upgrades to the terminal marine structures at both Westview and Little River to ensure these terminals remain operational for up to forty more years. While both terminals were closed during this construction, in collaboration with the communities, we successfully ensured a reliable transportation link for passengers and goods by providing ferry, water taxi, and air and shuttle bus service on alternate routes.

During fiscal 2014, we invested $108 million in our fleet. Of this amount, there were capital projects totalling $69 million. This included the $20 million multi-year life-extension project on the *MV Tachek* and the $3 million three-quarter life upgrade on the *MV Kwuna*. In addition, we had one of our biggest years ever for refits and vessel maintenance, spending $39 million. All of this provided significant work at local shipyards and our own refit facility.

In fiscal 2015, we plan to invest approximately $227 million (including interest during construction) in our infrastructure:

- $194 million in vessel and terminal capital expenditures is expected to be made in fiscal 2015. This includes:
    - investing $19 million in vessel major overhauls and inspections;
    - installing a cable ferry between Buckley Bay and Denman Island;
    - proceeding with the replacement of the *Queen of Burnaby* and *Queen of Nanaimo*, which will be retiring in fiscal 2016;
    - performing a ¾ life upgrade on the *Queen of Oak Bay;*
    - performing a mid-life upgrade on the *Queen of Capilano;*
    - replacing/upgrading marine structures at Port McNeill; and
    - commencing a rebuild of the berth at Sointula.
- Information technology systems and other capital expenditures of $25 million to support business requirements and improve infrastructure reliability and service delivery. We will continue updating our reservations, point of sale, payment and card services systems and website.

Other operational reliability initiatives include:

- Continuing to maintain a state of 'readiness' by ensuring vessels are effectively crewed with trained personnel, and that bridge electronics, firefighting equipment and safety equipment is constantly monitored and fully functional;
- Expanding the bridge operations skills and systems curricula to further strengthen our bridge teams, including communication and situational awareness;
- Developing plans to seamlessly integrate the new cable ferry into service;
- Developing plans to safely and efficiently introduce liquefied natural gas fueling in preparation for the replacement of the *Queen of Burnaby* and *Queen of Nanaimo* in fiscal 2016;
- Developing succession and workforce plans to ensure operational skills are available in light of our employee demographics and the Canadian federal government's National Shipbuilding Procurement Strategy;
- Continuing to improve vessel and terminal turnaround times through effective communication and issue resolution;
- Defining and documenting IT disaster recovery plans for critical applications; and
- Continuing to minimize the percentage of round-trip cancellations due to mechanical incidents, with a goal to improve by 10% over last year.

CONTINUOUS IMPROVEMENT

To be better at everything we do.

CONTINUOUS IMPROVEMENT – STRATEGIES AND TACTICS

During fiscal 2014, the Province of British Columbia (the Province) announced service level reductions to increase capacity utilization and reduce operating costs. In collaboration with the communities, we worked to minimize the impact of these service level reductions, while still achieving the intended operational savings.

In fiscal 2015, we will continue to ensure safety and environmental initiatives are priorities through:

- Continued focus on a long term sustainable safety environment;
- Continued development of standards across the fleet for lifesaving equipment, fire equipment, bridge layout and bridge electronics;
- The pursuit of liquefied natural gas as a viable alternative to marine diesel fuel;
- An optimized balance of in-port fuel efficiency savings with hydro consumption; and
- Introduction of recyclable paper hot beverage cups, in place of foam cups, throughout the fleet to improve the customer experience and reduce our environmental footprint.

To improve productivity, we will:

- Continue to work with the Province to identify service level adjustments with a focus on the major routes, and corresponding capital asset investment requirements in an effort to minimize the impact on fares while ensuring ongoing sustainable service;
- Continue to optimize fuel consumption through capital investment, vessel load management and appropriate use of shore power;
- Continue the pursuit of excellence in safety, service, risk management and quick decision making through training, risk management and accessibility of leadership;
- Continue to optimize vessel maintenance procedures and processes to ensure reliability and effective use of resources;
- Continue to pursue efficiencies at our ship repair facility through the development of people, project management and infrastructure investments; and
- Continue to strengthen employee knowledge and skills through enhanced simulator and situational training, professional development, apprentice sponsorship, and the ferry academy website.

To improve our customer experience, we will:

- Continue to provide high quality, high demand travel package offerings representing west coast communities and popular destination spots through BC Ferries Vacations;
- Continue to upgrade our reservations, point of sale, payment and card services systems and website;
- Continue to improve 'way finding' signage throughout our terminals and vessels to better communicate with our customers;
- Continue to implement a customer service enhancement program aimed at improving customer service skills; and
- Continue to respond to shifts in the commercial sector and enable the smooth transport of commercial goods for our customers.

VALUE FOR MONEY

To continuously improve value to our customers at every point along the customer experience chain.

VALUE FOR MONEY – STRATEGIES AND TACTICS

In fiscal 2014, we received approval from the Commissioner to replace the *Queen of Nanaimo* and *Queen of Burnaby* with three new intermediate class vessels. It is expected that these vessels will operate on liquefied natural gas, a commodity currently selling at less than 50% of the price of marine diesel. By introducing three intermediate class vessels to replace two larger vessels, we are able to minimize the required capital expenditure and position ourselves to reduce operating costs during low demand times by providing service with two of the three vessels.

The Commissioner also approved the implementation of a cable ferry system which allows for the retirement of one of our small conventional ferries. This initiative is expected to provide an average of $2 million in operational savings annually on our Vancouver Island to Denman Island route.

In fiscal 2015, we will continue to pursue opportunities to provide better value and service to our customers by:

- Awarding the contract for, and beginning construction on the three new intermediate class vessels;
- Continuing development of a new onboard brand and layout standard for vessels in preparation for the Spirit class vessel mid-life upgrades;
- Continuing to work with the Province to develop a long term vision for connecting coastal communities;
- Continuing to pursue viable alternative fuel sources such as liquefied natural gas;
- Continuing to optimize fuel consumption;
- Continuing to create a comprehensive mix of vacation products that incorporate travel on many of our routes through BC Ferries Vacations;
- Developing and executing leveraged marketing opportunities with private sector partnership programs;
- Refreshing food and retail marketing programs and promotions, and expanding new product introduction;
- Continuing to support commercial customers by providing supply chain solutions that focus on total transportation costs;
- Continuing to pursue loss prevention opportunities; and
- Continuing to monitor opportunities to access funding through the provincial and federal governments, as well as other programs wherever possible to minimize costs.

FINANCIAL INTEGRITY

To achieve key financial targets, ensuring that sufficient capital and retained earnings are available to revitalize our fleet, facilities and infrastructure.

FINANCIAL INTEGRITY – STRATEGIES AND TACTICS

Our commitment:

We will continue to ensure the company's financial integrity while providing safe and efficient service for our customers.

For fiscal 2015, this commitment will focus on:

- Filing of our Performance Term 4 (PT4) submission with the Commissioner, including a plan for the required capital investments for the ten years commencing April 1, 2017, to ensure we can continue to revitalize our infrastructure and provide long term sustainable service. The submission will also include our strategies to enhance the efficiency of our service delivery;
- Working to ensure the successful outcome of our applications to the Commissioner for approval of major capital expenditures in order to continue to provide long term sustainable ferry service; and
- Working with the Province to develop a long term vision for connecting coastal communities;

In addition, we will continue to:

- manage our resources prudently to ensure services are provided efficiently and effectively;
- actively manage long-term capital and operating plans;
- encourage ridership and generate non-fare revenues to ultimately offset increases in ferry fares with ancillary revenues through product development and marketing such as promotional pricing, our experience card, retail product offerings, vacation packages and gift certificates;
- promote BC Ferries by strengthening our image and marketing BC Ferries Vacations products in order to grow our destination travel business within the Province;
- focus on providing transportation solutions for the commercial market, building market share through diversification and strong customer relationships;
- monitor the capital markets for appropriate opportunities to re-finance the bond issue maturing May 27, 2014 totalling $250 million; and
- use best practices in supply chain management and risk/insurance coverage to manage costs.

FINANCIAL PLAN

Our financial plan supports the strategies and tactics within the business plan. It contains detailed information about our fiscal 2015 operating and capital budgets.

Over the past eleven years since being established as an independent company in April 2003, we have maintained a strong focus on providing a safe, reliable and efficient marine transportation service. We have continuously sought to improve this service, as witnessed by our performance measures. A significant portion of this effort has been directed to the replacement of many aged assets, resulting in more than $2 billion worth of investments over the past eleven years. We have brought seven new vessels into service, upgraded 19 others, made numerous improvements to terminals and marine structures, upgraded security, and implemented sewage pump-ashore and waste water treatment systems. These significant and necessary capital expenditures have resulted in a significant increase in net financing and amortization costs.

During fiscal 2014, we managed 169 active projects including the successful completion of 24 vessel refits, upgrades to the *Tachek* and *Kwuna*, and extensive upgrades at the Westview, Little River, and McLoughlin Bay terminals.

With the global economic downturn in 2008, we began to experience significant erosion in our traffic. This erosion, combined with significant increases in the price of fuel (150% since 2004), insurance premiums, property taxes, environmental and security regulations, utilities, benefit program rates and labour agreements has placed considerable pressure on earnings.

Without compromising safety, we have remained responsive to these challenges and maintained our focus on ensuring financial integrity. Since 2004, we have made significant improvements in our fuel consumption which has resulted in an overall decrease in our annual consumption of 4.8%, a savings of 5.8 million litres from fiscal 2004 (a reduction of over 8.3 million litres from fiscal 2003). Over the same period we have contained our administrative costs in absolute terms to the amount spent in 2004. When taking inflation into account, administration costs have been reduced by 17%.

($ millions)	Fiscal 2004 Actual[3]	Fiscal 2004 Restated in 2014 Dollars[4]	Fiscal 2014 Actual
Operations Costs			
Labour	202	236	269
Fuel[5]	50	58	126
Materials, supplies, contracted services and other	33	39	37
Insurance[6], property tax, utilities and credit card fees	10	12	21
Maintenance Expenses	84	98	63[7]
Administration Expenses	32	37	32
Net Financing and Amortization[8]	68	79	205

3 The fiscal 2004 figures for operations, maintenance and administration (OM&A) expenses have been adjusted from those figures previously reported to reflect classifications of expenses used in fiscal 2014. Total OM&A expenses for fiscal 2004 are identical to those previously reported.

4 Fiscal 2004 figures have been restated in 2014 dollars on the basis of BC CPI.

5 Fuel reflects the total cost of fuel net of fuel price hedging, gains or losses.

6 Insurance includes gains or losses from our subsidiary, BCF Captive Insurance Company Ltd.

7 Vessel major overhauls and inspections (MOI) were previously expensed as maintenance; under IFRS, they are capitalized and expensed over their expected life through amortization. For fiscal 2014, under previous GAAP, $39 million in MOI would have been expensed to maintenance increasing total maintenance to $102 million.

8 Net financing includes financing for the *Kuper* owned by our subsidiary Pacific Marine Leasing Inc.

Looking forward, we will continue to pursue opportunities to minimize costs and work towards replacing or life-extending 11 of our aged vessels over the next 10 years. These replacements present us with the opportunity to build standardized vessels to provide interoperability and design optimization. Complementing these initiatives is the opportunity to incorporate new technologies, such as liquefied natural gas engines. Liquefied natural gas is not only currently over 50% cheaper than marine diesel, it is also better for the environment.

During fiscal 2015, we will be providing the Commissioner with our fourth performance term submission. This submission will inform the Commissioner of the operating and capital investments required to ensure ongoing safe and reliable service. This will include several efficiency strategies we anticipate implementing in the coming years. Pursuant to the *Coastal Ferry Act*, the Commissioner will be seeking public comment on our submission.

We will also continue to work with the Province on service level adjustments and a long term vision for connecting coastal communities. This work will assist us with decision making as we work towards replacement of our vessels and marine structures, terminal improvements and information system investments.

OPERATING FORECAST

While the economic environment was stagnant throughout fiscal 2014, we remained consistent with our uncompromising commitment to provide a safe and efficient service to our customers, including continued cost containment measures. These measures resulted in net earnings for fiscal 2014 of $18.0 million, an improvement of $9.5 million from the target published in our fiscal 2014 Business Plan.

In addition to continued cost saving initiatives, recent adjustments to core service levels are expected to achieve $7.0 million in net savings for fiscal 2015, and an additional $11.9 million in savings during fiscal 2016. These initiatives are intended to help stabilize the effects of economic conditions and ensure long term sustainability while minimizing future increases in customer fares.

Our focus on financial integrity is expected to result in achieving continued productivity savings of $4.0 million, included as part of the Commissioner's final price cap order. This productivity target is over and above our continued commitment to the Commissioner to reduce operating expenditures by $10.3 million annually from the level specified in our Performance Term 3 (PT3) submission.

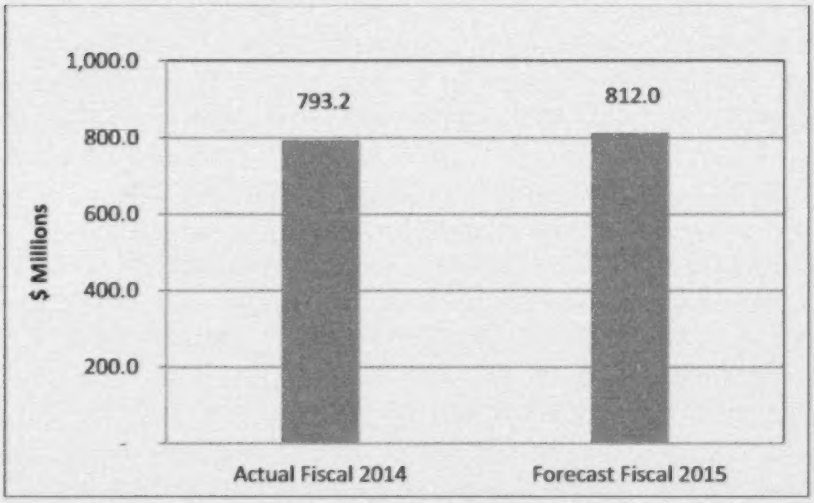
Operating Budget ($ millions)	Fiscal 2014 Actual	Fiscal 2015 Forecast
Revenues		
Total Tariffs including Social Program Fees, reservations and assured loading	532.3	552.7
Catering & Other Revenues	86.2	86.7
Federal – Provincial Subsidy Agreement	28.4	28.3
Ferry Transportation Fees	146.3	144.3
Total Revenue	**793.2**	**812.0**
Operating Expenses	565.2	593.2
(Gain) on Subsidiaries	(4.3)	(2.7)
Earnings before interest, taxes, depreciation and amortization	**232.3**	**221.5**
Net Financing Expense	69.3	65.3
Amortization	137.0	144.4
Loss on disposal and impairment of fixed assets	0.5	-
Net Regulatory Earnings[9]	**$25.5**	**$11.8**
Regulatory Adjustments		
Fuel	(8.8)	4.5
Amortization	0.1	0.1
Price Cap	1.2	0.7
Net IFRS Earnings	**$18.0**	**$17.1**

9 IFRS does not recognize regulatory assets and liabilities. Net regulatory earnings reflect earnings prior to those regulated expenditures and revenues giving rise to regulatory assets and liabilities, which will be returned to or recovered from our customers, either through future fuel surcharges or rebates, or through tariffs.

Fiscal 2015 is forecast to result in net earnings of $17.1 million, based on revenues of $812.0 million, offset by total expenses of $794.9 million (including regulatory adjustments).

REVENUES

Total revenues are projected to increase by 2.4% in fiscal 2015.



Total Tariffs including Social Program Fees

Traffic levels continued to decline throughout fiscal 2014 reaching a 23 year low. Significant factors that contributed to the reduction in traffic include the closure of terminals at Little River and Westview to accommodate capital upgrades and the timing of the Easter statutory holidays. In fiscal 2015, traffic is expected to remain at levels similar to those in fiscal 2014 with the impact of adjustments to core service levels being substantially offset by the resumption of regular service to the Little River and Westview communities and a full Easter season.

Effective April 1, 2014, the price cap index increased by 4.0% on all routes. This is pursuant to the Commissioner's final order on price caps for PT3 (fiscal 2013 through fiscal 2016) issued September 30, 2012. Tariff revenue in fiscal 2015 is expected to increase by 3.8% over fiscal 2014 as a result of the 4.0% price cap increase slightly offset by service level adjustments implemented April 28, 2014.

Federal-Provincial Subsidy Agreement

Under the terms of the Coastal Ferry Services Contract, we receive an annual contribution from the Province based on its agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal British Columbia. The amount of this payment is adjusted annually based on the Vancouver Consumer Price Index. The Coastal Ferry Services Contract between the Province and BC Ferries provides that the Province will transfer to us, the full proceeds from the federal government under this agreement. For fiscal 2015, revenue from this source is anticipated to be $28.3 million.

Provincial Fees

The Coastal Ferry Services Contract between the Province and BC Ferries has three components. The primary component is for the provision of services on designated routes. The second component includes reimbursement from the Province for fares associated with social programs (e.g. Ministry of Health travel assistance, children travelling for school, and discounted travel for B.C. seniors from Monday through Thursday). The final component is funding provided to BC Ferries for the oversight of service provided by independent operators on eight non-regulated routes.

Additional payments totalling $79.5 million over PT3 from April 1, 2012 to March 31, 2016 to reduce pressure for future fare and price cap increases were announced under Bill 47 amendments to the *Coastal Ferry Act* in fiscal 2013. During fiscal 2015, the Province will contribute $11.0 million in additional ferry transportation fees as part of these amendments.

Amendments to the Coastal Ferry Services Contract during fiscal 2014 targeted savings of $18.9 million in service level reductions over the remainder of PT3. The first phase of these service level adjustments was implemented April 28, 2014 on the minor and northern routes, and is intended to achieve $14.0 million in savings over the last two years of PT3. An additional $4.9 million in service reductions on the major routes is still to be identified and implemented by March of 2015.

The seniors social program which historically provided a 100% passenger fare discount for B.C. seniors travelling Monday to Thursday on the major and minor routes was reduced to a 50% discount effective April 1, 2014. The Provincial savings of approximately $6.0 million per year will be reallocated to ferry transportation fees and will reduce pressure on general fares.

The fiscal 2015 forecast also includes a $1.2 million decrease in the fees for the northern routes due to the amortization of assets deployed in that route group.

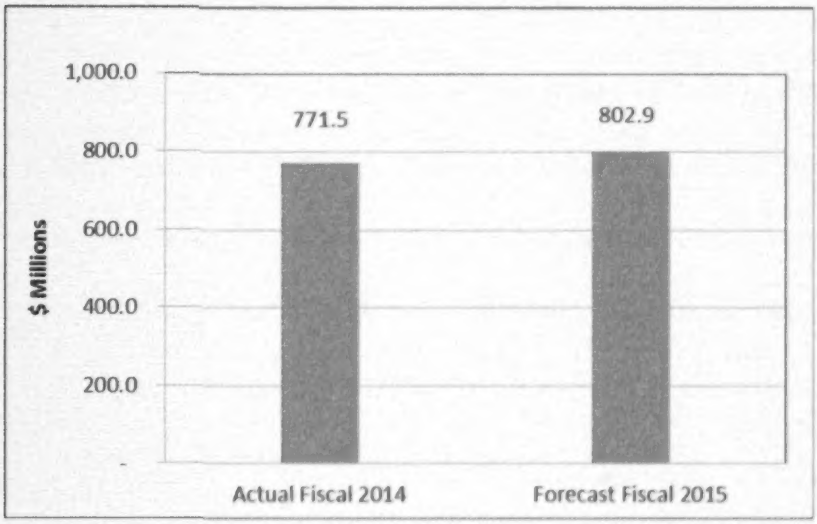
Funding for non-regulated routes is expected to be $2.5 million in fiscal 2015 based on contracts with alternative service providers.

Other Revenues

Fiscal 2015 is expected to yield a modest increase over fiscal 2014 in other revenue generated reflecting consistent growth in these areas. Catering and retail revenue make up the largest component of other revenues.

EXPENSES

Total expenses are projected to increase by 4.1% in fiscal 2015, primarily due to increases in operating expenses and amortization costs.



Operating Expenses

Operating expenses for fiscal 2015 are expected to increase by 5.0% or $28.0 million. This increase is mainly attributable to an increase in the vessel refit and maintenance program, an increase in bargaining unit wages and benefits in accordance with the collective agreement, an increase in the price of fuel, and the provision for a general contingency to mitigate revenue and traffic risk. These additional costs are partially offset by savings from service level adjustments and the elimination of the corporate bonus program.

Amortization

For fiscal 2015, amortization costs are expected to increase by 5.4% or $7.4 million as a result of a full year of amortization related to capital expenditures in fiscal 2014 and partial year amortization related to capital expenditures in fiscal 2015.

Net Financing

Net financing expense for fiscal 2015 is expected to decrease by 5.8% or $4.0 million primarily due to lower interest costs achieved through the refinancing of maturing bond issues.

CAPITAL BUDGET

We plan to invest $226.6 million in fiscal 2015.

Our fleet of 35 vessels and 47 terminals, four maintenance yards, one refit complex and a head office support the year round ferry service provided on 24 regulated routes. This requires ongoing capital investments in order to replace or upgrade aged assets, meet regulatory requirements and improve service to our customers.

Our major capital projects for fiscal 2015 include:

Vessels:

- New minor vessel - cable ferry between Buckley Bay and Denman Island;
- A multi-year project to replace the *Queen of Nanaimo* and *Queen of Burnaby*;
- *Queen of Capilano* mid-life upgrade;
- *Queen of Oak Bay* ¾ life upgrade; and
- Major overhauls and inspections on eight vessels.

Terminals:

- Port McNeill replacement of trestle, wingwalls, ramp, apron, towers, and dolphin;
- Sointula berth rebuild;
- Departure Bay berth 2, replace portside turning dolphin; and
- Prince Rupert install drainage and repave holding compound.

Information Systems:

- Customer service program;
- Website software upgrade;
- Payroll system replacement;
- Unified digital signage; and
- CCTV optimization & standardization program.

The following table details the actual capital expenditures for fiscal 2014 and the planned expenditures for fiscal 2015 by asset type, including interest during construction.

Asset Type ($ millions)	Fiscal 2014 Actual	Fiscal 2015 Forecast
Vessel Projects	$68.9	$131.7
Terminal Projects	$41.8	$62.6
Information Systems and Other projects	$19.2	$32.3
Net Capital Expenditures	**$129.9**	**$226.6**

FORWARD LOOKING STATEMENTS

This Business Plan contains certain "forward looking statements". These statements relate to future events or future performance and reflect management's expectations regarding our growth, results of operations, performance, business prospects and opportunities and industry performance and trends. They reflect management's current internal projections, expectations or beliefs and are based on information currently available to management. Some of the market conditions and factors that have been considered in formulating the assumptions upon which forward looking statements are based include traffic, the Canadian Dollar relative to the US Dollar, fuel costs, construction costs, the state of the local economy, fluctuating financial markets, demographics, tax changes, and the requirements of the Coastal Ferry Services Contract.

Forward looking statements included in this document include statements with respect to:

- our expectations regarding our safety, operational, employee, information technology, regulatory, customer service, marketing and environmental initiatives;
- our asset renewal programs for vessels and terminals;
- service level adjustments and a long-term vision for connecting coastal communities;
- our expectations regarding traffic levels and economic conditions;
- positive net earnings for fiscal 2015;
- capital expenditure levels;
- our expectations of the impact of our cost containment program and the amount of savings to be achieved through service level adjustments; and
- revenue, expense and budget projections.

In some cases, forward looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology.

A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including, but not limited to, the risks and uncertainties associated with traffic volume and tariff revenue risk, safety and security, asset risk, accident risk, tax risk, environmental risk, regulatory risk, labour disruption risk, risk of default under material contracts and aboriginal land claims.

Actual results may differ materially from any forward looking statement. Although management believes that the forward looking statements contained in this Business Plan are based upon reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this Business Plan, and British Columbia Ferry Services Inc. assumes no obligation to update or revise them to reflect new events or circumstances except as may be required by applicable law.

In addition to providing measures prepared in accordance with IFRS, we present certain supplemental non-IFRS measures. These include, but are not limited to, fleet reliability scores, employee and passenger safety scores, customer satisfaction

ratings, and total comprehensive income adjusted for the effect of rate regulation. These measures do not have any standardized meaning prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other companies. These supplemental non-IFRS measures are provided to assist readers in determining our ability to generate cash from operations and improve the comparability of our results from one period to another. We believe these measures are useful in assessing operating performance of our ongoing business on an overall basis.

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